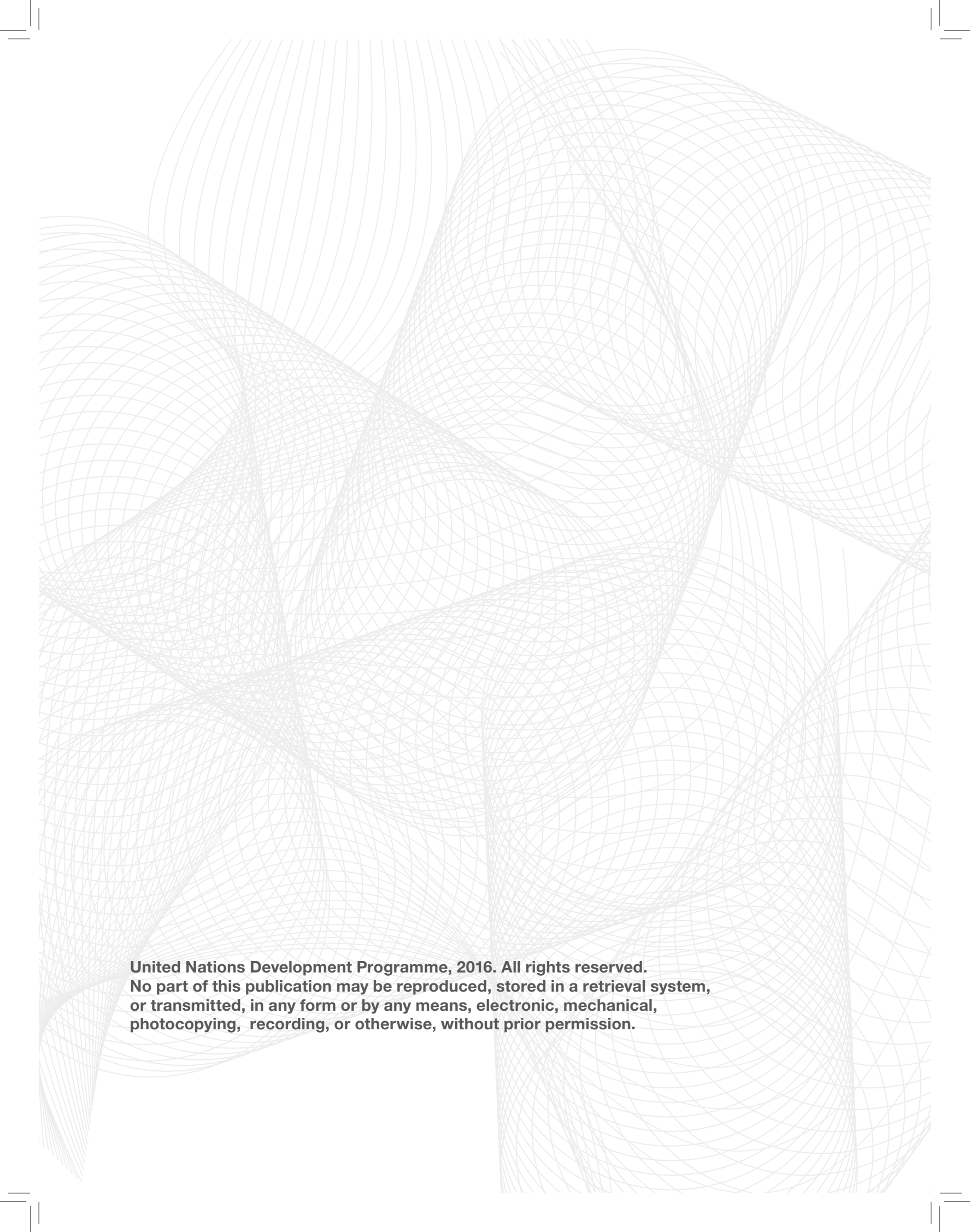




A PRACTITIONER'S GUIDE FOR CORRUPTION RISK MITIGATION IN EXTRACTIVE INDUSTRIES

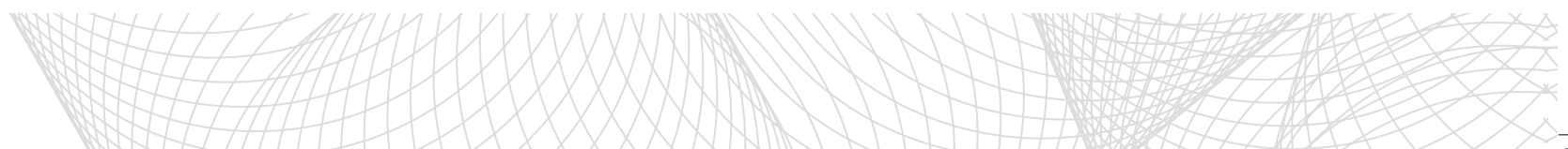
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A PRACTITIONER'S GUIDE FOR CORRUPTION RISK MITIGATION IN EXTRACTIVE INDUSTRIES



Foreword

The financial resources obtained from the export of oil, gas and minerals are major sources of finance for the sustainable development goals (SDG). The two most important conditions, however, are to raise adequate revenues in the first place and then to manage them transparently and accountably.

Corruption, by diverting resource wealth away from public use to private gains, reduces the available resources to finance the SDGs. Some of the unique characteristics of extractive industries (EI), such as the volume of financial resources involved, the high-level of discretionary political control, limited competition, opaque contractual arrangements, etc., make the industry particularly vulnerable to corruption and illicit financial transactions.

Therefore, resource-rich nations must develop the capacity and political will to address corruption in the extractive industries. The challenge consists in finding innovative ways to mitigate vulnerabilities that may give rise to corruption. Early integration of corruption risk mitigation processes into the design of legislation, regulation, policy, governance frameworks and fiscal management systems can reduce corruption.

Although public awareness of the negative effects of corruption has increased over the past decade, efforts to curb it have not always yielded the intended results. This Practitioner's Guide represents one of UNDP's efforts to support countries that aim to address the corruption risks in the extractive industry and to mitigate them.

This Guide is intended for policymakers, policy advisors, project/programme managers and specialists. It is a useful tool to raise awareness among government regulators, anti-corruption practitioners and non-state actors who are interested in addressing corruption in extractive industries.

We hope the user will find this Guide as a tool to detect and deter corruption, thus maximizing the benefits of resource wealth and the financing available to support the achievement of the SDGs.



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Acknowledgements

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* United Nations Development Programme (UNDP)

** **Consultant**

Some corruption practices, definitions and terminologies

1. **Corruption** is the abuse of entrusted power for private gain.
2. **Bribery** is the act of offering someone money, services or other inducements to persuade him or her to do something in return. Bribes are kickbacks, hush money or protection money.
3. **Cronyism** and **clientelism** are the favourable treatment of friends and associates in the distribution of resources and positions, regardless of their objective qualifications.
4. **Collusion** is secret agreements between two parties.
5. **Nepotism** is a form of favouritism that involves family relationships. Its most usual form occurs when a person exploits his or her power and authority to procure jobs or other favours for relatives.
6. **Embezzlement** is the misappropriation of property or funds legally entrusted to someone in his or her formal position as an agent or guardian.
7. **Extortion** is the unlawful demand or receipt of property, money or sensitive information to induce cooperation through the use of force or threat.
8. **Fraud** is an intentional misrepresentation, which is done to obtain an unfair advantage by giving or receiving false or misleading information.
9. **Patronage** is the support or sponsorship by a patron (a wealthy or influential guardian) for appointments in government jobs or to allocate public contracts.
10. **Influence peddling** or **trading in influence** is a form of bribery. For example, a person promises to exert an improper influence over the decision-making process of a public official or private sector actor in return for an undue advantage.
11. **Abuse of public property** or improper use of public resources is the inappropriate use of public financial, human or infrastructure resources.
12. **Money laundering** involves the illegal depositing and transferring of money and other proceeds of illegal activities to legitimize these proceeds.
13. **Insider trading** involves the use of information secured by an agent during the course of duty for personal gain.

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I. Introduction

The wealth derived from the extraction and export of oil, gas and minerals has the potential to enhance sustainable development. Yet, some research findings indicate that resource-rich countries tend to perform no better than their non-resource-rich peers or sometimes even worse. Corruption and elite capture, which tend to divert resource wealth away from public accounts to private gains, explain part of the failure to develop on the back of resource extraction.

Empirical evidence also shows that corruption is detrimental to growth and development. Corruption also has a disproportionate impact on those most dependent on public services, particularly the poor and the marginalized.¹

Therefore, resource-rich countries must have the capacity to tackle corruption in the extractive industries. In this regard, it is worth mentioning some of the recent positive changes that attempt to tackle corruption in the extractive sector. The following are selected examples:

- The mandatory financial disclosure rules in Europe and the US that demand source of mineral resources, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and the European Market Infrastructure Regulation.
- The G7 and G20 proposals for automatic exchange of information aimed at reducing illicit financial flows.
- The Extractive Industries Transparency Initiative (EITI) and the Publish What You Pay initiatives.
- The Stolen Asset Recovery Mechanisms, managed by the World Bank.
- Pressure from civil society to reform the international banking system – for instance, as stipulated by the various reports from Global Witness.

Purpose of the Practitioner Guide

The purpose of this Practitioner's Guide is to identify, analyse and mitigate corruption risks before they materialize into resource wealth loss. More specifically, this Guide can be used to:

1. Identify corruption risks in the different phases of resource extraction
2. Develop a plan to effectively mitigate corruption risks
3. Monitor and assess corruption risks regularly

The Target Audience

This Guide can be used by policymakers, policy advisors, project/programme managers and specialists to sensitize government regulators, anti-corruption practitioners and non-state actors who are interested in addressing corruption in extractive industries. Although most of the issues and discussions could be relevant for artisanal and small-scale mining, the Guide's main focus is on large-scale hydrocarbon and mining activities.

¹ United Nations Development Programme, Corruption and Development: Anti-Corruption Intervention for Poverty Reduction, Realization of the MDGs and Promoting Sustainable Development, 2008, <http://www.agora-parl.org/node/169>.

Structure of the Practitioner Guide

The Practitioner's Guide has four sections: Section one started with an introduction and provided background information about the purpose of the Guide and the target audience. Section two discusses the features of the extractive sector and outlines the key phases of the extraction process – from designing regulatory frameworks to investing in social and economic development projects. Section three sets out the methodology and presents step-by-step guides for identifying corruption risks and instituting mitigation measures in the extractive sector.² Section four provides concluding remarks.

² This Guide is informed by extensive knowledge produced by the UNDP on anti-corruption initiatives and extractive industries; the International Monetary Fund's Guide on Resource Revenue Transparency June (2005); the UN Convention against Corruption (2003); the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1999); and the authors' work in this area.

II. Extractive Industries and Corruption

What are extractive industries?

Extractive industries are operations that involve extracting raw materials (such as oil, gas, minerals) from the earth, processing them for exports, transporting, shipping as well as consuming the materials as production inputs and as final goods.

Extractive industries generate more than US\$3.5 trillion in annual gross revenue, corresponding to around 5 percent of global gross domestic product (GDP). The oil sector dwarfs other extractive sectors, accounting for about 65 percent of the annual gross revenue, with coal and natural gas representing around 11 percent each, and non-fuel minerals 13 percent. Potential net revenues, are estimated at about US\$1 trillion for low-income and lower-middle-income countries.³

Who are the key actors in the extractive sector?

The extractive sector involves a range of actors. These include:

1. Public officials (regulators, politicians, parliamentarians, local government personnel)
2. Public entities (state-owned enterprises, ministries, agencies, etc.)
3. Private individuals (executives, consultants, bankers, traders, brokers, investors, lawyers, citizens, etc.)
4. Private organizations (international companies, institutional investors, domestic companies, supply companies, consulting firms, financial institutions, etc.)
5. Civil societies (NGOs, labour unions, chambers of commerce, think tanks, service providers, etc.)

Identifying these actors' roles and motivations is essential to understanding how the sector is managed and governed. The full list of actors, their respective roles and incentives can be found in Appendix 1.

What are the corruption vulnerabilities at the different phases of resource extraction?

Several characteristics of an extractive industry make it susceptible to corruption.⁴ Some of them are: (1) large inflows of investments and rents; (2) complex contractual arrangements; (3) strategic importance of resource production; and (4) deployment of highly specialized assets. These are described in detail below:

Large inflows of investment capital and rents: According to estimates by the International Energy Agency, US\$3 trillion will be invested in the oil and gas sector alone over the next 25 years.⁵ It is estimated that extractive industries globally generate about US\$3.5 trillion in annual gross revenue and an estimated rent, or potential net revenues of about US\$1 trillion for low-income and

³ Philippe Le Billon, "Extractive Sectors and Illicit Financial Flows: What Role for Revenue Governance Initiatives?," U4 Issue 2011:13 (2011).

⁴ See details in Charles McPherson and Stephen MacSearraigh, "Corruption in the Petroleum Sector," in *The Many Faces of Corruption - Tracking Vulnerabilities at the Sector Level*, ed. Edgardo Campos J. and Sanjay Pradhan (Washington, D.C.: The International Bank for Reconstruction and Development / The World Bank, 2007), 191–220.

⁵ For more details, see Richard G. Newell and Stuart Iler, *The Global Energy Outlook*, Working Paper (National Bureau of Economic Research, April 2013), <http://www.nber.org/papers/w18967>; Hisham Khatib, "Oil and Natural Gas Prospects: Middle East and North Africa," *Energy Policy* 64 (2014): 71–77.

lower-middle-income countries. Boyce and Ndikumana (2011) find a statistically significant positive relationship between oil exports and illicit financial flows: for each extra US dollar in oil exports, they estimate that an additional 11 to 26 cents leave a country as illicit capital flight.⁶

Complex contracts: The extractive industry is complex technically (in terms of policy design, governance, regulation and operations), commercially (negotiating, contracting, investment capital, assets-at-risk and large rents) and structurally (many stakeholders: government ministries, agencies, state-owned enterprises; foreign interests; international and domestic extraction companies; and financial institutions). The industry involves intricate power relations and information as well as bargaining asymmetries. Public and private actors for self-interested goals can exploit such asymmetries. Actors who want to exploit resource wealth for private gain can easily conceal their activities in the maze of complexity, making malfeasance difficult to detect and prosecute.

Strategic resource: For producing- and consuming-country governments, extractive industries are often considered as high strategic importance. From a consuming-country government's perspective, access to extractive resources and security of supply make it strategically important for economic growth at home. The pursuit of resource access and supply security, especially in unstable producing countries, may create opaque relationships and may exert corrupting influence on producing-country governments, thus creating incentives for embezzlement.

Specialized assets: Resource development requires extraction companies to make large capital investments in specialized assets (e.g., drilling equipment) for geological, exploration, development, production and transportation activities and facilities. In situations where government counterparts may not have the same quality of information about the international market, companies could inflate costs affecting the calculation of rent and royalties.

It is possible to separate the process of translating natural resources into social and economic development along five phases.⁷ These are:

1. Policy, legislation and regulatory institutions design
2. Concession and contract negotiations
3. Extraction operations and regulatory compliance
4. Revenue generation and fiscal management (tax administration)
5. Expenditure management

Phase 1 – Policy, legislation and regulatory institutions design: During this phase, the legal basis for the ownership of extractive resources; the policy, contractual and regulatory frameworks on how resources are to be explored and produced; and how resource revenue is to be distributed, are established. This could take the form of a constitution or specific policy, law or regulation for a given industry (oil law or mining code). Box 1 lists some of the characteristics of good policy, legal and institutional frameworks.

⁶ Billon, "Extractive Sectors and Illicit Financial Flows."

⁷ Each phase needs to function optimally for the system as a whole to maximize resource wealth and deliver economic value and social benefits to all citizens.

Box 1: Characteristics of good policy, legal and institutional frameworks include:

- Laws that guarantee effective protection of land and property rights
- Strict enforcement of laws that protect the rights of indigenous and local communities such as through (Free Prior and Informed Consent (FPIC) and Environmental and Social Impact Assessments (ESIAs)
- Effective parliamentary and/or inter-ministerial coordinating mechanisms that oversee the governance of the extractive industry
- Strong separation of responsibilities for government ministries, agencies and state-owned enterprises involved in the development of extractive resources
- Regulatory regimes that establish comprehensive environmental protection requirements, post-extraction environmental impact analysis, safeguards and compliance standards, and enforce sanctions for non-compliance
- Transparent and accountable policies and systems with strong checks and balances to safeguard citizens' interest in resource wealth
- A well-designed framework for fiscal regime or production sharing agreements established in the law and strictly enforced

Corruption vulnerabilities during policy, legislation and regulatory institution design:

Corruption could undermine the effectiveness of policymaking and weaken governance oversight. For example, companies and investors seeking to influence the design of extractive laws and policy may use bribes to officials (regulatory capture) to relax regulation intended to protect the environment and the rights of indigenous peoples and local communities. Those actors holding extraction rights may seek to bribe public officials to renegotiate contract terms and conditions in their favour.

Corrupt practices in the policy, legislation and regulatory institutional framework design include:

- Public officials may shape basic policies, rules, regulations and processes in ways to favour certain groups or acquaintances in return for personal gain.
- Foreign companies may influence policy to gain access to extractive resources by bribing decision makers.
- Extractive industry actors may exert undue influence through bribery to push for a lax regulatory regime.
- There might be nepotism and patronage in the appointment of key positions in the regulatory and oversight institutions.

Phase 2 – Concession and contract negotiations: Governments grant resource extraction rights to companies in specific locations by means of concessions, leases or licenses. Openness of concession-granting procedures is vital to achieving transparency during subsequent phases. Open tendering with clearly defined procedures and sealed bids (with fixed or variable terms) constitutes best practice. For instance, sealed bid procedures with fixed terms are used in Australia, Ireland, New Zealand, Norway and the United Kingdom. Furthermore, full disclosure of winning bids and contracts is an important aspect of good practice in transparency. However, such practices are not yet universally applied in many countries, thus exposing concession granting to corruption vulnerabilities. Box 2 outlines some of the good practices in concession and contract negotiations.

Box 2: Some of the salient features of good practices related to concession and contract negotiations include:⁸

- Competitive and transparent bidding rounds that decrease risks of corruption compared to first-come, first-served systems or direct negotiations. However, care has to be taken to avoid collusions amongst bidders.
- Having a coherent and coordinated negotiating team with representation by key stakeholders to participate in negotiations
- Publishing all of oil, gas and mining contracts or licenses. For instance, it is recommended good practice by the International Finance Corporation to disclose contracts for the extractives projects in which it invests.
- Beneficial ownership publications ensure reduced corruption. Often, the beneficial owners of the contract are different from the bidders and this vital element is not revealed through contract transparency alone.
- Enhanced independent monitoring of compliance by regulators and NGOs and CSOs, while informing future deals based on the feedback from such monitoring
- Ensuring that citizens are better able to understand the sector and monitor obligations of governments and companies, including knowing whom to hold accountable and what payments should be made

Corruption vulnerabilities during concession and contract negotiations: The discretion to allocate extraction rights that can generate enormous rents could thus be highly vulnerable to corruption. In some countries, public officials are given enormous discretionary powers to grant extraction rights and significant scope for discretionary arrangements in individual contract negotiations and agreements. However, discretion without adequate accountability and transparency creates corruption vulnerability, which can be exploited for private gains. When concession and contracting procedures are non-transparent and largely informal, they are open to abuse of discretion.

Some of the corruption risks during concession and contract negotiations may involve:

- Abuse of discretionary power by a public official in charge of granting concession rights by receiving bribes from extraction companies in exchange for lucrative concessions and favourable contract terms
- Bribery to influence allocation of extraction rights, area and rate of exploitation, length of operations, amount of revenue sharing, cost recovery, etc.
- Political patronage and nepotism – allocation of lucrative contracts to political patrons
- Phantom rights – allocation of rights to private companies as well as those owned by politicians and government officials
- Collusive bidding in which bidders agree who is going to tender the most competitive bid, allowing the bidders to artificially bid higher than the agreed bid and bribery to overlook anti-collusive regulations

⁸ “Mining Contracts - How to Read and Understand Them”, <http://ccsi.columbia.edu/work/projects/mining-contracts-how-to-read-and-understand-them/>

Phase 3 - Extraction operations and regulatory compliance: This phase encompasses the exploration, development, production, transportation and storage of minerals and hydrocarbons. Some producing countries have established state-owned enterprises such as national resource companies (NRC) for minerals and hydrocarbons (e.g., a national oil company – NOC) to regulate extractive operations and monitor regulatory compliance. In addition, NOCs monitor operational benchmarks such as the scale and size of discoveries, proven reserves, production rates, production volumes and total costs of production. Some good practices of extraction operations are listed in Box 3:

Box 3: Good practices in extraction operations and regulatory compliance include:

- Open procurement standards and practices during the construction and instalment of facilities and infrastructure including access roads, rails, ports, processing plants, camp accommodations, water supplies, etc.
- Publishing and communicating information regarding the agreed quantitative (production rates, recovery rates in the case of mining operations, concentrate grade, etc.) and qualitative (social and environmental safeguards, blasting patterns, etc.) criteria for the extraction operations
- Keeping open communication between extractive companies and governments and between companies and surrounding communities throughout the production period
- Independent monitoring, verification and oversight of production volumes and operational expenses to avoid the risk of misreporting to inflate or deflate production rates for personal gain
- Maintaining high ethical standards by the managers of extractive industry operations

Corruption vulnerabilities during extraction operations and regulatory compliance: In countries with serious governance deficit, large inflow of capital investments to procure equipment and services, prepare sites, build roads, railways, pipelines and storage facilities could create a fertile ground for extortion and bribery. For example, an extraction company may bribe public officials to conceal major environmental damages, underreport production volume or overstate cost of production.

The type of corruption risks that may occur during this phase could take such forms as:

- Bribery and kickback in procurement of equipment and services for mining operations and oil and gas installations
- Fraud and bribery in underestimating and misreporting of reserve and production amount
- Regulatory capture and bribery to undermine environmental protection
- Extortion, embezzlement and bribery to undermine the rights of indigenous and local communities during extraction processes

Phase 4 - Revenue generation and fiscal management: This phase involves a complex system of collecting revenues from taxes, bonuses, royalties, levies, and other forms of production and revenue sharing arrangements. The rents generated from the extractive industry often represent a large share of government revenue. Box 4 below highlights some of the good practices in revenue management.

Box 4: Good Practices in revenue generation and fiscal management include:

- Policy directives that establish clear and transparent and accountable mechanisms for revenue flows and the operations of any extra-budgetary funds including natural resource funds and Sovereign Wealth Funds (SWFs)
- Disclosure of all payments made by companies to the government and, for the government, disclosure of all corresponding receipts – accurately and regularly, including in-kind benefits
- Full disclosure of the extent to which the government is involved in the extractive sector through equity participation and contingent liabilities associated with such involvement
- Strong provisions regarding personal conflicts of interest disclosure for officials involved in the management of the sector
- Besides public disclosure, regular and independent audits of trading of minerals, government receipts and distribution and use of resource revenue to subnational and local entities
- Independent auditing of production volumes, production costs and cost recovery schemes

Corruption vulnerabilities during revenue generation and fiscal management: Decision makers' use opaque extra-budgetary schemes to allocate resource rents opens room for misappropriation and corruption. The lack of transparency and accountability on how resource revenue is distributed to subnational entities may create embezzlement vulnerabilities, which can be exploited by public officials. Such vulnerabilities tend to get exacerbated due to difficulties of collecting and verifying data on volumes produced, consumed and exported, on the prices actually realized and on the amount governments receive for their share of production.

In the revenue generation and fiscal management phase, the potential corruption risks include:

- Distortions in accounting and reporting of production volumes, revenue and cost of extractive industries for personal gains and using bribery to overlook regulations
- Use of transfer pricing and trade mispricing to increase amount of production cost and cost recovery
- Under-invoicing of the value of resources sold/exported
- Elite capture of national resource funds/sovereign wealth funds
- Bribery to evade taxes or reduce royalties
- Diversion of revenue to offshore bank accounts

Phase 5 - Expenditure management: This involves spending resource revenues on development programmes, projects, infrastructure and social services, and transferring to the public in the form of cash transfers, for instance. Such public expenditure outlays must be allocated efficiently, accountably and transparently in accordance with established rules and regulations for public expenditure management. Box 5 below lists some of the good practices in expenditure management.

Box 5: Good practices in expenditure management include:

- Comprehensive scrutiny and appraisal of resource revenue spending choices to ensure allocative efficiency and alignment with development objectives (e.g., education, health care, drinking water, infrastructure, etc.)
- Effective design of development projects, including well-defined specifications, scope of work, deliverables, project completion milestones and assumptions about project risks
- Stringent prequalification of contractors and subcontractors; competitive tendering for procurement of goods, equipment and services; independent audits to ensure timely completion, quality deliverables and value-for-money
- Open and transparent cash transfer schemes, monitored by legislative bodies

Corruption vulnerabilities during expenditure management: In some resource-rich countries, weaknesses in public expenditure accountability systems, in control and in auditing processes make public expenditure allocations highly vulnerable to corruption. Especially in the procurement of large, capital-intensive and complex public works projects, bribery, kickbacks, fraud, embezzlement and nepotism tend to be rampant. As a result, the allocation of funds can be inefficient, ill-structured, over-priced and often on poor quality infrastructure.

Specific examples of corruption in the expenditure management phase include:

- Nepotism, clientelism and cronyism, e.g., officials granting favourable projects to their friends, families and business associates
- Bribery and solicitation, e.g., 'selling' certain projects with high rent-seeking potential
- Embezzlement of funds when officials collude with contractors to siphon off project funds for themselves
- Fraudulent overbilling and cost overruns

In sum, not only can vulnerabilities in each phase of extraction expose resource assets to corruption in that particular phase, but they can also create corruption risks in subsequent phases. There is an **interdependence of vulnerabilities**.

Take, for example, a potential vulnerability during the **policy, legislation and regulatory institutions design** phase. Assume that the policy and legal framework does not provide sufficient checks and balances to ensure compliance with international standards for environmental protection. This creates corruption vulnerability not only in policy capture, but also in regulation capture. These in turn weaken enforcement of regulation in the extraction operations phase, resulting in degradation of the environment upon which local communities depend for farming and fishing, for instance. Furthermore, widespread corruption in the extractive sector, if not effectively dealt with, could spill over into other sectors and undermine the general governance of a nation. Therefore, it is imperative that all system vulnerabilities be identified.

Appendix 2 presents a complete description of corruption typologies in each phase of the resource extraction process.

III. Methodology for Identifying and Mitigating Corruption Risks

We present a six-step process for identifying corruption risks and putting in place mitigation plans. The steps are: (1) Planning the corruption risk assessment; (2) Collecting data; (3) Analysing data to identify corruption risks; (4) Validating the findings; (5) Formulating corruption mitigation measures; and (6) Implementing the corruption mitigation measures (see Figure 1).

Figure 1: A six-step process for corruption risk assessment and mitigation



1. Plan the corruption risk assessment

Secure country commitment

It is important to begin corruption risk assessments by securing a solid foundation of partnership and commitment from the host country. Hence, obtaining unambiguous buy-in from a wide range of top government officials and citizen groups is a crucial first step for building confidence, generating enthusiasm and gaining ownership of the initiative. Once country ownership is secured, the next step is to identify stakeholders. One way to ensure country commitment is to assign a top government official as the **'champion'** who is accountable for the deliverables.⁹

Identify stakeholders who will inform the assessment

It is important to understand the key stakeholders at the various stages of the extractive lifecycle and to ensure that their interests and concerns are considered. Each phase of the resource extraction may have different stakeholders, ranging from policymakers to communities. A **stakeholder analysis** helps to categorize stakeholders according to their power and interest in the planned corruption risk assessment.¹⁰

Four categories of stakeholder can emerge: (1) those with high power and highest interest in corruption risks and mitigation measures to whom the recommendations of the assessment are targeted; (2) those with high power but low interest in the assessment who need to be sensitized by the assessment; (3) those who have low power but high interest and want their voice to be considered; and (4) those with low power and low interest in corruption risks, but who need to be informed. Based on such categorization, it is possible to determine which stakeholder to engage, inform and consult.

⁹ Identifying and working with 'integrity champions' brings legitimacy and opens up the possibilities of communicating the results of the assessment. However, in cases where the risks of corruption at the highest political levels are high, integrity champions are likely to be very few. It may also mean that various stakeholder want to present themselves as integrity champions in order to gain influence and that they might potentially disrupt the corruption assessment if they are unhappy with the findings or with the way the assessment is conducted.

¹⁰ For more insight on stakeholders analysis, see Robin Grimble and Man-Kwun Chan, "Stakeholder Analysis for Natural Resource Management in Developing Countries," *Natural Resources Forum* 19, no. 2 (May 1, 1995): 113–24.

Select the assessors

It is recommended that a team of independent experts in extractives and anti-corruption work carry out the assessment. Independent consultants can ensure the greatest degree of survey participation, integrity and confidence in the quality of the data. They also earn the confidence of the survey respondents and the sensitive information they provide.

2. Collect data

A multiple data collection method is recommended, as the information collected from one method can be triangulated or cross-checked against the same information from other sources to minimize data errors and respondent bias, including misreported, underreported or missing data. Therefore, data collection needs to involve interviews, surveys and gathering of secondary data, where available.

Interviewing key stakeholders

Key informant and semi-structured interviews are important in obtaining useful information about the quality of institutions and the governance of the extractive industry. Key informants are those who are knowledgeable about where corruption vulnerabilities and risks exist, the effectiveness of current and planned controls to mitigate corruption occurrence and any impact they may have on social benefits. Key informants can also come from the outside. For example, an independent policy consultant who has worked with the government to formulate extractives policy may have reliable information. Also, a company that just participated in tender processes may have useful information on how the tendering process actually works. Informants must remain anonymous because they are 'whistle-blowers' on corruption; hence the interviews must protect that anonymity. For instance, if very few persons have a certain job title, then they are at higher risk of backlash and therefore their feedback is likely to be muted. A key informant interview guide sample is provided in Appendix 3.

Conducting Surveys

Survey questions may include identifying potential corruption areas in the different extractive stages described above. The questions should be customized to country-specific circumstances. The survey can be administered electronically (e.g., using Survey Monkey) or in hard copy as required in order to better organize the responses and to minimize human error. To avoid potential reporting bias, the survey should maintain anonymity of respondents. Sample survey items are provided in Appendix 4.

Gathering quantitative data

In addition to the primary data collected through key informant interviews and surveys, secondary data on the management and governance of extractive industries can be obtained from published sources and can complement the primary data. These sources could be local (domestic think tanks, industry reports, etc.) or international (the Resource Governance Index, EITI reports, Transparency International's CPI, etc.).

3. Analyse the data

The analysis of the data should focus on five areas in the following order: i) identifying corruption risks ii) assessing the likelihood of corruption occurring iii) assessing the impact of corruption iv) computing corruption risk levels v) constructing a risk analysis report. These steps are outlined in detail below:

- i. **Identifying corruption risks** – One example of specific corruption risk is the non-transparent and non-competitive tendering of extraction rights, which could lead to lack of transparency in resource revenue flows. These risks form the basis for identifying the associated corruption risks.

Illustration: If the process of tendering and granting extraction rights and the awarding of concessions, leases or licenses are identified as vulnerable areas under phase 2 of extraction (concession and contract negotiations), the associated corruption risks could take such form as “bribery to influence allocation of extraction rights, rate of exploitation area, length of operations, amount of revenue sharing, cost recovery, etc.”

- ii. **Assessing the likelihood of corruption occurring** – A simple qualitative scale could be used to classify each likelihood as 1 = Low, 2 = Medium, or 3 = High. An example of likelihood rating is illustrated in Table 1.

In the rating system outlined in Table 2 below, the likelihood that corruption is high can be when (1) the risk is high, (2) asset is highly valuable, (3) actor(s) is highly motivated and sufficiently capable and (4) mitigation measures are ineffective. Corruption likelihood can be medium when (1) the risk level is medium, (2) asset is highly valuable, (3) actor(s) is highly motivated and sufficiently capable, but (4) mitigation measures are effective. The likelihood of corruption is low when (1) the risk level is low, (2) asset value is low, (3) actor(s) lacks motivation or capability, or (4) mitigation measures ARE effective.

Illustration: The probability of bribery in the allocation of concessions right might be ranked as ‘medium’ because the government has recently introduced competitive bidding standards (which means mitigation measures are effective, but could still be exploited through collusive biddings).

Table 1: Likelihood Rating System

SCORES	HIGH RISK	HIGH RISK	MEDIUM RISK	MEDIUM RISK	LOW RISK	LOW RISK
	HIGH VALUE	LOW VALUE	HIGH VALUE	LOW VALUE	HIGH VALUE	LOW VALUE
HIGH MOTIVATION	3					
INEFFECTIVE MITIGATION						
HIGH MOTIVATION			2			
EFFECTIVE MITIGATION						
LOW MOTIVATION						
INEFFECTIVE MITIGATION						
LOW MOTIVATION						1
EFFECTIVE MITIGATION						

- iii. **Assessing the impact of corruption** – Impact can also be measured on a 1 to 10 scale, where 1 = Low impact, 2 = Medium impact, and 3 = High impact. (See Table 2 for an impact rating system.) Note: potential impact is assessed on financial and non-financial terms (e.g., resource revenue, the environment, rights of indigenous and local communities, social benefits).

Illustration: *If bidders could bribe the allocation of concession rights to a substantial area, it could have a high impact on future revenue that flows to the government. The impact could be high where the resource in question is a primary source of government revenue, affecting the level of poverty-reducing expenditure.*

Table 2: Potential Impact Rating System

High	Impact is high when corruption could (1) lead to costly loss of resource asset value (e.g., revenue); (2) significantly undermine human development outcomes; (3) severely damage the environment; (4) completely violate rights of indigenous and local communities; or (5) result in sustained lack of service delivery to citizens.
Medium	Impact is medium when corruption could result in loss of some resources asset value.
Low	Impact is low when corruption could result in the minor loss of some resource asset value.

- iv. **Computing corruption risk score** – The corruption risk can be worked out using the following simple formula.

$$\text{Corruption Risk Score} = \text{Likelihood} \times \text{Impact}$$

Therefore, **corruption risk score** measures the **likelihood** and the potential **impact** of corruption when self-interested actors exploit **the risks**.

Illustration: Continuing with the same illustration, where the likelihood of bribery to influence allocation of extraction rights under phase 2 has been ranked as 'medium' (2) and the potential impact on future government revenue from extractives was considered high (3); the overall corruption risk score is hence medium-high (6 out of the maximum score of 9). Table 3 summarizes illustrative calculation of sample corruption risks.

- v. **Construct a Risk Analysis Report** – Table 3 presents a sample report. Take, for example, a risk assessment in the important area of revenue generation and fiscal management phase (row 4, column 1), where the survey finding indicates high risk and vulnerability in transparency of revenue flows. In addition, the likelihood and impact surveys pinpoint high likelihood that resource revenues will be lost. Accordingly, the team quantifies this corruption risk score as high. The desk review of public data and key informant interviews identifies the key actors as 'public officials and private companies'.

Table 3: Illustrative Risk Analysis Report

Extraction phases (1)	Corruption risks (2)	Likelihood (3)	Impact (4)	Corruption risk score (5)	Actors (6)
Policy, legislation and regulatory institutions design	Nepotism and patronage in the appointment of key positions in regulatory and oversight institutions.	1	3	3	Public officials Private companies
	Extractive companies may exert undue influence to push for a lax regulatory regime	1	2	2	Public officials Private companies
Concessionary & contract negotiation	Bribery to influence allocation of extraction rights because the process of tendering and granting of extraction rights and award of concessions, leases, or licenses	3 (high)	3 (high)	9 (high)	Public officials Private companies
Extraction operations and regulatory compliance	Regulatory capture and bribery to undermine environmental protection	3	3	9	Oil/Mining ministry, Environmental protection authority, Private companies
	Bribery and kickback in procurement of equipment and services for state-owned mining operations	3	3	9	Government procurement office, state-owned mining company
Revenue generation and fiscal management	No transparency and accountability.	3	3	9	Public officials Private companies
	Under-invoicing of the value of resources sold/exported				
Expenditure management	Fraudulent overbilling and cost overruns in projects as well as allocation and distribution of revenues	3	2	6	Public officials
	Petty bribe to expedite the registration of beneficiaries during revenue distribution	3	1	3	Administrative officers

4. Validate the findings

Organizing a validation workshop to present the findings of the corruption risk assessment exercise and discussing recommendations to curb priority risks with the participants of the survey and other key stakeholders encourage ownership of the process and garner support for mitigation. Such a gathering offers an opportunity to solicit support and to define roles for key stakeholders in managing risks.

5. Formulate a mitigation action plan

Identify existing corruption mitigation measures

Because many countries already have anti-corruption strategies or institutions, at different stages of effectiveness, it is useful to assess their success in addressing corruption risks. While some anti-corruption measures may need to be designed, many others may only need to be implemented, strengthened or enforced. The findings of the key informant interview may shed light on existing measures and tools as well as a sense of their effectiveness.

Illustration: Where participants recommend increased transparency in the bidding and contracting process to counter the risk of bribery in the allocation of concessions right (as illustrated in the earlier example), checking the existence and effectiveness of freedom of information (FOI) laws and other transparency initiatives would be a logical starting place. If the government has already enacted FOI and there seems to be a reasonable level of access to information, then it will be useful to check the extent to which accountability mechanisms and integrity checks have been used to hold those in charge of contracting responsible.

A list of corruption mitigation measures is provided in Appendix 5.

Assess capacity gaps

Not all countries are at the same level of institutional readiness or possess adequate capacity for implementing comprehensive risk mitigation measures in the extractive sector. It is therefore important to ensure that the stakeholders can act decisively if mitigation plans are to be successfully implemented. Some stakeholders may already have the necessary capacities and institutional arrangement to tackle corruption risks, while others might need to train their staff or update their existing systems. Therefore, a systematic diagnosis of existing capacities and gaps is a crucial step in managing corruption risks.

Illustration: For mitigating the risk of bribery in the allocation of concession rights, increased transparency in the bidding and contracting process through instituting open and competitive bidding processes might be the priority action. The assessment team must then gauge whether the regulatory bodies are able to set up open and competitive bidding and licensing procedures for mining and oil and gas exploration and extraction. Similarly, the capacity of the supreme audit office and civil society organizations to provide oversight in the licensing process must be assessed. If such capacity does not exist, targeted training and capacity development activities can be designed as part of the overall risk mitigation action plan.

Develop a corruption risk mitigation action plan

The mitigation plan may contain a detailed action plan on how priority corruption risks will be addressed and a detailed implementation schedule containing timeframe, activities, milestones and deliverables (see a sample mitigation plan for one priority risk in Table 4).

Table 4: Illustrative Corruption Risk Mitigation Action Plan

Prioritized Corruption Risk	Recommended mitigation action/tools	Responsible actor	Capacity to undertake the proposed action	Time	Budget	Indicators and measures of progress
<ul style="list-style-type: none"> Bribery to influence allocation of extraction rights under stage one of the extraction process 	<ul style="list-style-type: none"> Increased transparency in the bidding and contracting process Instituting open and competitive bidding processes 	<ul style="list-style-type: none"> Regulatory bodies in charge of issuing concession rights and license Audit institutions CSOs 	<ul style="list-style-type: none"> Need capacity to set up open and competitive bidding and licensing procedures Need training in compliance with established standards Need capacity for auditing of compliance and adherence to standards Training for CSOs and journalists to provide oversight 	Q1-Q4	\$\$\$\$\$	<ul style="list-style-type: none"> % of licenses and concession rights issues whose adherence to standards is reported and verified by a third party Compliance reporting systems are established Rate of compliance with standards # of audit observations

6. Implement the risk mitigation measures

Mitigating corruption may constitute a challenge to corrupt actors who benefit from resource rents. Therefore, the implementation process requires effective coordination among different government departments, ministries, agencies and state-owned enterprises as well as independent oversight agencies, citizens and the private sector.

The main activities in the implementation stage can be grouped as follows:

1. Stakeholder mobilization – The stakeholder analysis conducted during the assessment phase should be updated and applied to ensure that key stakeholder constituencies are adequately informed and engaged throughout the implementation process.
2. Active communication – Other relevant organizations and citizens should be informed regularly about implementation objectives and progress attained at key milestones.

3. Balance quick-wins and long-term changes – Implementing some risk mitigation measures such as introducing asset declaration by senior public officials involved in extractive industries may require much political capital and time. On the other hand, delivering meaningful quick-wins (e.g., immediate policy change in how concessions are awarded) could build confidence in the implementation process.
4. Respect for institutions – ‘Corruption’ is a highly charged word in some cultures and people can become highly sensitive to any perception of national criticism. So the implementation team must focus on the task at hand, avoid moralizing and stay away from any comments that might derail implementation or build cultural resistance to change.

Monitor and Learn

It is important to measure and monitor the mitigation actions based on the agreed action plans. Similarly, capturing and sharing lessons and experiences from implementing risk mitigation measures can be used to further improve the corruption risk management system.

IV. Conclusion

Ample empirical evidence demonstrates that corruption is harmful to growth and development. Corruption also has a disproportionate impact on the poor and the marginalized, mainly because they are highly dependent on public services.

Special characteristics of extractive industries make them uniquely prone to corruption. Some of these characteristics are: the large financial resources involved, the high-level of discretionary political control over the key institutions, and the limited competition and opaque contractual arrangements. These features of the industry create the ground for corrupt practices, such as embezzlement of funds, cronyism, patronage and illicit financial flows.

Public awareness of the negative effects of corruption in the extractive industry has improved, along with the increasing importance of oil, gas and minerals in driving economic growth. But this awareness is not always translated into concrete efforts to tackle corruption. One reason that there are limited efforts in tackling corruption is that there are few guides regarding how corruption is detected, analysed and mitigated. Despite the serious risk that corruption presents to resource wealth, many resource-rich countries have few mechanisms to detect, assess and mitigate corruption risks.

The aim of this Practitioner's Guide is, therefore, to complement existing anti-corruption mechanisms so that policymakers, advisors, regulators, anti-corruption practitioners and non-state actors understand the nature of corruption risks in the extractive sector and put in place the necessary mitigation measures. The Guide, in essence, serves as an early warning system to detect and deter corruption, thus maximizing the benefits of resource wealth.

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Appendix 1: Actors, Roles, Incentives and Corruption Opportunities

Actors	Role Description	Incentives	Corruption Opportunity
Producing-country governments	Play an important role in policy formulation, tendering and negotiation of extraction rights and contracts, regulation of operations and collection and allocation of resource revenue to development programmes.	<ul style="list-style-type: none"> • Access to large and highly concentrated rents • Political influence through directing benefits and opportunities to supporters and denying these to oppositions 	<ul style="list-style-type: none"> • Discretionary powers over policies and rights • Lack of transparency & accountability • Weak institutions and capacity • Information & decision asymmetries
Consuming-country governments	Leverage promises of economic, political, infrastructure and military support to influence outcomes that protect their national interests. May condone corrupt practices in producing countries to ensure preferential access to resources.	<ul style="list-style-type: none"> • Access to hydrocarbons and mineral resources to fuel their energy-driven economies • Supply security • Influence-peddling 	<ul style="list-style-type: none"> • Aid leverage • Preferential access to capital and market
International extractive industry companies	Compete for access to extraction rights and engage in negotiation of commercial, regulatory and operating terms with producing governments. Intent is to maximize gains for shareholders or private benefits.	<ul style="list-style-type: none"> • Huge return to investors • Externalize costs and internalize profits • Rent capture • Cost inflation to maximize rents 	<ul style="list-style-type: none"> • Privileged access to attractive concessions • Weak institutions in host countries • Information asymmetries • Tax evasion • Proven reserve shield
Domestic operator firms	Operate extractions appropriated either on the basis of 'local content' or through various partnership arrangements.	<ul style="list-style-type: none"> • Privileged access to attractive concessions • Beneficiaries of political patronage 	<ul style="list-style-type: none"> • Misrepresentation of company ownership • Weak institutions
State-owned companies – National Oil Companies (NOC) and National Mining Companies (NMC)	Operate independently or jointly with international companies in resource production and/or management.	<ul style="list-style-type: none"> • Access to large and highly concentrated rents • Political cronyism 	<ul style="list-style-type: none"> • Lack of transparency & accountability • Discretionary powers over operations • Weak institutions • Weak capacity • Information asymmetries

Actors	Role Description	Incentives	Corruption Opportunity
Service & Supply Companies	Provide contracted services – supplying extraction machinery and infrastructure such as roads, pipelines, rigs, mining equipment, and exploration, development & production services such as geological, geophysical, reservoir management, catering and waste disposal, etc.	<ul style="list-style-type: none"> • Cronyism and patronage – where local elites could use them to employ and benefit their political supporters and family members 	<ul style="list-style-type: none"> • Lack of transparency & accountability • Weak institutions • Information asymmetries • Procurement opacity • Collusive misreporting of production volumes • Cost inflation
Banks	Bankers provide financing to operators.	<ul style="list-style-type: none"> • High return for financial services in high-risk investment environment 	<ul style="list-style-type: none"> • Safeguard loans • Arm's-length opportunism • Weak institutions • Lack of transparency & accountability
Facilitator Agents	Mediate resource extraction transactions between operators, banks and producing governments.	<ul style="list-style-type: none"> • Beneficiaries of political patronage 	<ul style="list-style-type: none"> • Privileged access to attractive concessions • Weak institutions • Shadow operators and lack of transparency
Citizens	Citizens living in areas of resource extraction, in some case have to agree or grant access to EI companies.	<ul style="list-style-type: none"> • Bribery of local leaders/chiefs 	<ul style="list-style-type: none"> • Preferential access to public services • No accountability • Lack of prior and informed consultation and consent

Appendix 2: Typology of Corruption in the Five Extraction Stages

Extractives management phase	Corruption Risks	Type of Corruption
<p>Policy, legislation and regulatory institutions design</p>	<ol style="list-style-type: none"> Distortions in policymaking – public officials may shape the basic policies, rules, regulations and processes in ways to facilitate corruption in subsequent phases. Patronage-driven policies designed to benefit political elites Policy may be influenced by consuming-country (foreign) governments to gain access and ensure security of resources. Regulatory regime may be influenced by extractive industry actors. 	<ol style="list-style-type: none"> Policy capture Abuse of discretion Political capture Regulatory capture (beneficial waivers to regulations) Bribery Clientelism
<p>Concessionary & contract negotiation</p>	<ol style="list-style-type: none"> Opacity of tendering process, criteria and key actors Direct violation or deviations from established tendering procedures – e.g., award based on extraordinary circumstance or right of first refusal Lack of auction or competitive bids in concessionaries Lack of transparency in negotiation of extraction rights & contracts terms and conditions Non-transparent revenue-sharing arrangement Opaque arrangement on cost of production recovery Non-transparent tax allowances Asymmetric information between parties – geological formation 	<ol style="list-style-type: none"> Bribery to influence allocation of extraction rights, rate of exploitation area, length of operations, amount of revenue-sharing, cost recovery, etc. Political patronage and nepotism – allocation of lucrative contracts to political patrons, interest groups and relatives Conflicts of interest among top government officials Political and regulatory capture Over-invoicing of price paid for transportation and storage Collusive bidding in which bidders agree who is going to tender the most competitive bid, allowing the bidders to artificial bid higher than the agreed bid

Extractives management phase	Corruption Risks	Type of Corruption
<p>Extraction operations & regulatory compliance</p>	<ol style="list-style-type: none"> 1. Lack of transparency in production rate, proven reserves and production volumes 2. Lack of enforcement of regulations 3. Non-transparent procurement of exploration, production, extraction, transportation infrastructure & storage facilities 4. Lack of transparency in total cost of production recovery 5. Weak enforcement of environmental protection 6. Distortion in protection of the rights of indigenous and local communities 	<ol style="list-style-type: none"> 1. Bribery and kickback in procurement 2. Use of transfer pricing to increase amount of cost recovery 3. Fraud and bribery in underestimating and misreporting of reserves 4. Fraud and bribery in misrepresenting and misreporting production rate, production amount 5. Fraud and bribery in overestimating cost of recovery 6. Regulatory capture and bribery to undermine environmental protection 7. Extortion, embezzlement and bribery to undermine the rights of indigenous and local communities or to corrupt local leaders

Extractives management phase	Corruption Risks	Type of Corruption
Revenue generation & fiscal management	<ol style="list-style-type: none"> 1. Distortions in production volume accounting and reporting 2. Distortions in production cost accounting and reporting 3. Lack of transparency in the amount of profit EI companies pay the government 4. Lack of transparency in aggregate government revenue receipts 5. Lack of transparency in trading of government share of production 6. Lack of transparency in bonus receipt 7. Mispricing of resources 8. Underpayment of royalties or avoidance of taxes owed 9. Lack of transparency in investment of windfall profits 10. Lack of transparency in subnational distributions 11. Lack of regular independent audits of government resource revenues 	<ol style="list-style-type: none"> 1. Revenue capture 2. Political capture 3. Underreporting of reserves/production 4. Diversion of production 5. Under-invoicing of the value of resources sold 6. Bribery to evade taxes or reduce royalties 7. Cost inflation 8. Embezzlement 9. Diversion of revenue to offshore bank accounts 10. 'Resource bunkering'

Extractives management phase	Corruption Risks	Type of Corruption
Expenditure management	<ol style="list-style-type: none"> 1. Lack of transparency in spending choices and allocation of funds to projects 2. Duplication of funds for identical projects 3. Allocation of funds to 'white elephant' projects 4. Lack of transparent and competition in public procurement 5. Excessive bureaucratic interference in public-private partnership projects 6. Lack of transparency in contract awards – terms and conditions 7. Frequent award of 'exclusive contracts' 8. Frequent renegotiation of awarded contracts 9. Lack of regular independent audits of public expenditures 	<ol style="list-style-type: none"> 1. Tender rigging 2. Budget capture 3. Extortion 4. Bribery & kickback 5. Patronage 6. Political Capture 7. Cronyism and clientelism 8. Embezzlement 9. Transfer pricing 10. Nepotism, clientelism and cronyism

Appendix 3: Sample of Key Informant Interview Guide

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Background

1. What is your job title?
 2. What are your main responsibilities in the extractives or sustainable development area?
 3. What year did you join this group?
 4. What is your educational background?
1. What is your greatest concern about how the extractive industries are functioning in the country?
2. What are the main vulnerabilities (weakness that can be exploited) or danger signs you've experience in the following areas:

- a. National laws, regulation, policies and governance frameworks
- b. The role of state-owned enterprises vs. other agencies and ministries involved
- c. Granting of concessions, leases, licenses, etc.
- d. Negotiating contract terms – commercial, financial, production, duration of operations, environmental compliance, indigenous/local community rights, etc.
- e. Regulating the operations of companies
- f. Collecting taxes, royalties and signature bonuses
- g. Independent audits, accounting and reporting of revenues and sovereign funds
- h. Accountability for and transparency of public expenditures
- i. Public procurement
- j. Managing development projects.
- k. Delivering services (education, health care, utilities, etc.) to citizens

3. What are the main types of corruption risks that you experience in your area?
4. How often do you encounter each of these risks?
5. How likely are these risks to occur again?
6. What are the impacts on financial and non-financial resource assets when these risks are exploited?
7. What actions have been taken or are planned to be taken to mitigate these risks from occurring?
8. Have these actions been effective in mitigating or reducing risks and how?
9. What other actions do you think need to be taken to mitigate the risks?
10. Who should be taking these actions?
11. Why were these actions not taken in the past?
12. How do you assess the political will to mitigate the risks (excellent, very good, average, fair or poor)?
13. Do you have any other information to provide?

Corruption Risk

Appendix 4: Sample Survey Instrument

Survey items	Likelihood of corruption risk occurring Yes or No Why?	Impact Negative or Positive How?
Phase 1: Policy, Legislation and Regulatory Institutions Design		
<ol style="list-style-type: none"> 1. The government's ownership of resources in the ground is clearly established by law. 2. The power to grant rights to explore, extract and sell resources in the ground is well established in laws and regulations that pertain to all stages of resource development. 3. The government's policy framework and legal basis for taxation or production sharing agreements (PSA) with resource companies are clearly and comprehensively stated and publicized. 4. Environmental protection policies and regulation are in place. 5. Fiscal authority, division of roles and responsibilities over resource management and borrowing are clearly specified in the law. 6. Legislation includes a requirement for full disclosure of all resource-related revenue, loan receipts and liabilities, and asset holdings. 7. There is formal provision for effective and independent legislative review policy and governance. 8. Ownership structures of national resource companies (NRC) and their fiscal roles are clearly defined in legislative policy. 9. Division of roles and responsibilities among state-owned enterprises (NRC), resource ministry and the finance ministry in setting policies and governance of extractive resources are clearly defined in legislative policy. 10. Commercial responsibilities are clearly distinguished from policy, regulatory and social obligations. 11. The country has an openly stated and actively implemented anti-corruption policy. 		
Phase 2: Concessionary and Contracts Negotiation		
<ol style="list-style-type: none"> 1. A prequalification code of conduct clearly prohibiting corruption in tendering and contracting is communicated to all parties and signed by all. 2. Tendering information including technical and geological information is available to all parties before tendering and awarding of concessions, licenses and leases. 3. Government and/or state-owned enterprises publicly disclose their level of beneficial ownership in oil, gas and mining companies bidding for concessions, licenses and leases. 4. Tendering procedures for concessions, licenses and leases are open, clear, competitive and public. 5. Processes for transferring or awarding a license or concession are accurately documented and disclosed. 6. Information about the recipient(s) of transferred or awarded concessions, licenses and leases is accurately documented and disclosed. 7. Contract terms including work programmes, signature bonuses, royalty rates, profit oil split, cost recovery limits and tax rates are fully specified and disclosed publicly. 8. 'Sole-sourced' and 'negotiated' contract terms are disclosed publicly. 9. Contract terms and conditions specify legal and regulatory requirements for environmental protection. 10. Contract terms and conditions specify indigene/local community rights protection regulation. 		

Phase 3: Extraction Operation & Regulatory Compliance

1. The government publicly discloses beneficial owners of the corporate entity(ies) that operate extractive resources.
2. Audited estimates of resource reserves are disclosed based on international reporting standards.
3. The amount of resources produced per period is regularly and independently audited and publicly disclosed.
4. The rate of extraction or production of resources is regularly and independently audited.
5. The procurement process for extraction equipment and supplies is transparent.
6. The total cost of extraction is independently audited and publicly disclosed.
7. Environmental protection specifications meet international standards and are included in operating manual.
8. There are strict procedures for operator's personnel to monitor and report compliance with environmental protection standards during extraction operations.
9. An independent firm regularly monitors and enforces environmental compliance standards during and after extraction operations.
10. There are clear anti-corruption guidelines or codes of conduct in place for environmental protection inspectors.

Phase 4: Revenue Generation & Fiscal Management

1. Revenue flows such as profits taxes, royalties, dividends, bonuses (signature, discovery and production bonus) and fees (license fees, rental fees, entry fees) between companies (right holders) and national resource companies (NRCs) and the government are independently audited and regularly disclosed to the public.
2. Production volumes and revenues received from the sale of government and state-owned enterprises' production entitlement are independently audited and regularly disclosed to the public.
3. Revenues received by the government and state-owned enterprises from transportation of production are independently audited and regularly disclosed to the public.
4. Rules applied to resource-related extra-budgetary funds are clearly stated as part of an overall fiscal policy framework.
5. All resource revenue-related transactions, including extra-budgetary funds, are clearly identified, described and reported in the budget process and final accounts documents.
6. Mechanisms are clearly specified for coordinating the operations of any extra-budgetary funds established for resource revenue management with other fiscal activities.
7. Arrangements to assign or share resource revenues between central and subnational levels of government are well defined and explicitly reflect national fiscal policy and macroeconomic objectives.
8. Internal control and audit procedures for handling resource revenue receipts through government accounts or special fund arrangements and any spending of such receipts through special funds are clearly described and disclosed to the public.
9. The scope for discretionary action by tax officials is clearly defined in law and regularly monitored.
10. There is a clear division of responsibilities over spending and borrowing resource funds among government ministries and state-owned national resource companies (NRCs).
11. Information on the financial transactions, balances and investments of extra-budgetary funds is available. For example, transactions of Sovereign Wealth Funds (SWFs) are transparent.

Phase 5: Expenditures Management

1. There is legal provision for effective and independent legislative scrutiny of aggregate public expenditure in the budget.
2. The national budget is transparent, showing key items of expenditure and is publicly available.
3. There is an effective and transparent internal audit process for all ministerial and agency expenditures in the budget that is publicly available.
4. Measures to detect and punish officials found to have taken part in forms of bribery and corruption are in place and are enforced.
5. Whistle-blowing is encouraged and whistle-blowers are afforded adequate protection from reprisal for reporting evidence of corruption or mismanagement of expenditures.
6. Regular anti-corruption training takes place for personnel in charge of managing the lifecycle of public expenditures from budgeting to procurement and payment.
7. There are clear guidelines on how government officials should exercise discretion in the allocation of resource funds.
8. There is a formal procedure by which staff members may notify a designated official of suspected breaches of integrity or contravention of the code of conduct for public expenditures management.
9. There are mechanisms in place to protect those who report suspected breaches of integrity from retaliation.
10. There is a high level of transparency in budgetary matters and there is accurate and objective information on how government money is used, on the cost of government programmes and on the benefits.

Appendix 5: Anti-Corruption Measures and Tools

Anti-corruption Tools/Measures	Scope	Actor (who can apply the tools/ measures)
Staff awareness and education	To ensure that people involved in managing extractive industries have access to information and knowledge to recognize and respond to the risks of fraud and corruption and to foster ethical organizational culture.	Regulatory bodies /oil and mining companies/ CSOs
Client and community outreach	To convey clear messages on the government's and companies' stance on fraud and corruption and to give unambiguous guidance about acceptable and unacceptable business practices.	Regulatory bodies /oil and mining companies/ CSOs
Public integrity policy	Institutional framework for promoting integrity and combating corruption across the extractive sector.	Regulatory bodies /national oil and mining companies
Income and asset declaration	To enhance transparency with respect to the incomes and assets of public officials managing EI, thereby deterring illicit enrichment from sources such as bribery or investments made with inside knowledge. It also ensures that cases where this does occur are quickly identified and dealt with.	Anti-corruption Agency, Government Ethics Office, Civil Service Commissions, or other designated government entity
Wealth/lifestyle audits	To set any standard relevant to the duties and functions of public officers managing extractive industries. This could include basic performance standards covering areas such as fairness, impartiality, independence, integrity, diligence, propriety of personal conduct, transparency, accountability, responsible use of organizational resources, etc.	Regulatory bodies /oil and mining companies
Code of conduct/ conflict of interest	To ensure full disclosure of taxes and other payments made by oil, gas and mining companies to governments with the aim of improving openness and accountable management of revenues from natural resources	Regulatory bodies /oil and mining companies/ CSOs
Extractive Industries Transparency Initiative (EITI) standard	To access and follow up on the financial execution of all programmes and actions related to case transfer or benefit distribution system	Mining and oil ministries together with line ministries and service providers
Transparency portal/ electronic cash transfer	To track the flow of revenue and benefits to and from the central government, through the administrative hierarchy and to the beneficiaries.	Think-tanks, policy institutes or other local NGO-type intermediaries
Public expenditure tracking surveys	A dedicated telephone line, email or web-platform that gives people a means of anonymously notifying and reporting misconduct or unethical practices to the agency with minimal personal risk. It can be linked with the judiciary or an ad hoc complaint mechanism.	Regulatory bodies /oil and mining companies in collaboration with anti-corruption agencies and law enforcement
Hotlines	To give confidence and protection for staff members, journalists, citizens and community members in exposing and reporting corruption and related offences	Human rights institutions
Whistle-blower protection		





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